

Message Text

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ORIGIN EUR-12

INFO OCT-01 ISO-00 EB-07 INR-07 CIAE-00 PM-03 L-02 ACDA-05

NSAE-00 PA-01 PRS-01 SP-02 USIA-06 TRSE-00 SAJ-01

COME-00 FRB-03 NIC-01 /052 R

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R 091638Z APR 75

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USMISSION EC BRUSSELS

C O N F I D E N T I A L STATE 080297

E.O. 11652. GDS

TAGS: ECON, EFIN, NATO

SUBJECT: ECONADS: ECONOMIC ASSESSMENT, PREPARATION FOR

-- DRAFT MINISTERIAL GUIDANCE

REF: NATO 1611, NATO 1820

1. SEVERAL COMMENTS ARE NECESSARY ON DRAFT ASSESSMENT NOTED REFTEL. CONCLUSIONS ABOUT NECESSITY FOR COOPERATION, DIFFERENCES IN EFFECT BETWEEN NATO AND WARSAW PACT, AND NEED FOR STANDARDIZATION AND COST EFFECTIVENESS ARE SATISFACTORY. HOWEVER, SEVERAL DETAILS OF THE ECONOMIC ASSESSMENT, PARTICULARLY THE RATHER UNNECESSARILY BLEAK TONE SHOULD BE CHANGED IN ORDER TO SQUARE WITH OUR OWN VIEWS. COMMENTS ARE KEYED TO PARAGAPHS IN ASSESSMENT:

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--2. FINAL SENTENCE ON PEACE-TIME RATHER THAN WAR-TIME ECONOMIC STABILIZATION MEASURES SEEMS INCORRECT. SAVE FOR THE IMPOSITION OF WAGE AND PRICE CONTROLS, SUPPORTED BY PATRIOTIC FERVOR, THE MEASURES WHICH ARE AVAILABLE IN PEACE-TIME ARE THE SAME AS THOSE WHICH ARE AVAILABLE IN WAR-TIME. THEIR EFFICACY IS PROBABLY GREATER IN PEACE TIME, SINCE THEY DO NOT HAVE TO CONTEND WITH FORCED-DRAFT INVESTMENT IN EMERGENCY PRODUCTION FACILITIES, NOR DO THEY NECESSARILY HAVE TO CONTEND WITH LARGE FUNDING OPERATIONS BY THE TREASURY.

--3. NOTE THAT SHARPER DECLINE IN OUTPUT IN 1975, WHICH WE NOW ACCEPT, IS LIKELY TO RESULT IN HIGHER RATES OF GROWTH LATER. NOTE THAT WE REFER TO RATES, RATHER THAN LEVELS IN THIS PARAGRAPH.

--3. ALSO, WE SUGGEST MODIFICATION OF THE WORDING IN THE LAST HALF OF THE PARAGRAPH, SINCE THE STATEMENTS ABOUT INSTITUTIONAL CHANGES TO ACCOMPLISH RECYCLING OF OIL REVENUES GIVE A STRONGLY MISLEADING IMPRESSION. IN FACT, OIL REVENUES WERE SUCCESSFULLY RECYCLED IN 1974. THE IMF OIL FACILITY IN 1974 WAS NOT FULLY DRAWN DOWN AND THE OECD-SPONSORED SAFETY NET HAS BEEN AGREED TO. WE WOULD NOT SUGGEST THAT THE PROBLEM HAS BEEN FULLY MET, BUT RATHER THAT THE PROSPECT (AT LEAST FOR NATO COUNTRIES) IS LESS BLEAK THAN PAINTED.

--4. RATHER THAN THE SUGGESTION THAT ANTI-INFLATIONARY POLICIES HAVE HAD LITTLE EFFECT (FOURTH SENTENCE), WE WOULD SUGGEST THAT "ANTI-INFLATIONARY POLICIES HAVE NOT YET RESULTED IN A SATISFACTORILY DEPRESSING EFFECT ON PRICES."

--5. INHERENT "FRAILTY" OF ECONOMIES OF NATO COUNTRIES IS OVERSTATEMENT. THESE ECONOMIES ARE VULNERABLE TO OIL EMBARGO, AN ENTIRELY DIFFERENT IMPRESSION.

--5. RE FINANCIAL SUPPORT, WE WOULD NOTE THAT TERMINOLOGY "REFUND SYSTEM" IS INCORRECT. WE WOULD SUGGEST "FINANCIAL SUPPORT FUND." ALSO, WE WOULD SUGGEST "FLUCTUATION" RATHER THAN "DECLINE" OF THE DOLLAR. ALSO, RE LAST SENTENCE, NO SUCH DECISION TO PEG OIL PRICES TO SDR HAS

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YET BEEN MADE, ALTHOUGH THERE HAS BEEN DISCUSSION. THE COUNTRIES CITED HAVE, HOWEVER, CHOSEN TO DENOMINATE THEIR CURRENCIES IN TERMS OF THE SDR OR OTHER "BASKET" OF CURRENCIES. THIS IS NOT THE SAME AS PEGGING THE PRICE OF OIL TO SOMETHING OTHER THAN THE DOLLAR. KISSINGER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: MEETING AGENDA, INSTRUCTIONS, COMMITTEE MEETINGS, ECONOMIC REPORTS
Control Number: n/a
Copy: SINGLE
Draft Date: 09 APR 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: MartinML
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975STATE080297
Document Source: CORE
Document Unique ID: 00
Drafter: RP
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750124-0502
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750466/aaaaciwd.tel
Line Count: 112
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 75 NATO 1611, 75 NATO 1820
Review Action: RELEASED, APPROVED
Review Authority: MartinML
Review Comment: n/a
Review Content Flags:
Review Date: 17 APR 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <17 APR 2003 by BoyleJA>; APPROVED <17 SEP 2003 by MartinML>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ECONADS: ECONOMIC ASSESSMENT, PREPARATION FOR -- DRAFT MINISTERIAL GUIDANCE
TAGS: ECON, EFIN, NATO
To: NATO BRUSSELS
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006